By FREDERICK CUTLER

Benchmark Survey of U.S. Direct Investment Abroad, 1966

Much new information on U.S. direct investments abroad has been obtained from a comprehensive survey conducted by OBE. A volume of data has just been published entitled *United States Direct Investments Abroad, 1966 Part 1: Balance of Payments Data.* It presents detailed statistics of capital flows, net earnings, the reinvestment of earnings, and the receipt of all types of income by U.S. owners, including royalties and fees, together with a full description of methodology.

AMERICAN direct investments abroad have received increasing attention in recent years. Their rapid growth has influenced the pattern of international trade, resulted in substantial U.S. receipts of profits and dividends, and transferred U.S. capital, technology, and managerial talent abroad. Detailed information about some aspects of these multinational activities has just been published by OBE under the title *United States Direct Investments Abroad, 1966 Part 1: Balance of Payments Data*, a supplement to the *Survey of Current Business*.[1] The information is based on a comprehensive benchmark survey of about 3,400 U.S. owners covering over 23,000 foreign affiliates. Previous benchmark surveys were conducted by OBE for the years 1950 and 1957.

Part I of the survey provides the definitive measurable balance of payments results of all direct investments for the year 1966, and is organized to show extensive breakdowns by country and industry. In addition, it presents detailed information on the structure of the foreign enterprises and on the type of transactions with U.S. owners. It also presents data classified by extent of U.S. ownership and by age of the foreign affiliate and provides such details as transactions between primary and secondary foreign enterprises, gross versus net capital flows, profits and losses of foreign branches, royalties and related fees received from foreign affiliates for the use of the technology and know-how transferred to them and service charges and rentals collected from affiliates.

Part II of the survey will be published in separate segments based on the industry classification of the U.S. owners. It will include data on the financial statements and operating statistics of the foreign affiliates.

This article highlights a few of the interesting findings of the survey. One is that despite very large increases between 1950 and 1966 in direct investment outflows and in the combined income (dividends, interest, branch earnings, and fees and royalties) paid to U.S. owners, the difference between the two flows changed surprisingly little.

These calculations, however, do not take account of all the balance of payments flows related to direct investments, nor are they intended to measure the overall impact on the balance of payments of direct investments. For instance, part of U.S. direct investments abroad is financed by borrowing from foreigners and these offsetting inflows are not counted here. Likewise, the considerable impact of direct investment on trade flows is not taken into account. Similar qualifications apply to the other points made below.

A second finding relates to the link between capital flows and earnings, on the one hand, and the date of establishment or acquisition of foreign affili-

Table 1.—Capital Flows and Combined Income Receipts, 1950 and 1966

[Millions of dollars; balance of payments outflows (−)]

Area and country	Capital flows			Interest, dividends and branch earnings			Royalties and fees			Net flows		
	1950	1966	Change	1950	1966	Change	1950	1966	Change	1950	1966	Change
All countries, total	−621	−4,267	−3,646	1,294	3,938	2,644	231	1,099	868	904	770	−134
Developed countries	−463	−3,577	−3,114	440	1,529	1,089	122	821	699	99	−1,236	−1,335
Canada	−287	−1,335	−1,048	204	725	521	35	220	185	42	−389	−431
Europe	−121	−1,070	−949	116	644	528	73	490	417	70	−830	−900
Republic of South Africa	−23	−28	−5	13	55	42	3	14	11	−7	41	48
Japan	−7	−54	−47	2	42	40	4	42	38	−1	30	31
Australia	−24	−175	−151	11	44	33	6	50	44	−7	−81	−74
New Zealand	−1	−14	−13	2	10	8	1	3	2	2	−1	−3
Less developed countries	−158	−690	−532	854	2,418	1,564	109	278	169	805	2,006	1,201
Latin American Republics	−45	−276	−231	513	911	397	65	165	100	533	790	256
Other Western Hemisphere	−6	−150	−144	10	165	155	1	12	11	5	28	23
Other Africa	−10	−80	−70	24	259	235	1	18	17	15	197	183
Middle East	−63	−68	−5	211	889	678	11	27	16	159	848	690
Other Far East	−9	−58	−49	84	125	41	31	46	15	106	113	7
International	−25	−60	−35	11	70	60	n.s.s.	22	22	−14	32	46

n.s.s. Not separately shown.

NOTE.—Detail may not add to totals because of rounding.

Source: U.S. Department of Commerce, Office of Business Economics.

1. Available at $1.75 per copy from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 or any Commerce Department Field Office. Stock number 0310-0029

ates, on the other. It turns out that while a large part of capital flows goes to recently established affiliates, about 87 percent of earnings are earned by affiliates established before 1958. These findings, for which the reasons are complex, suggest that direct investment capital outflows do little in the short run to generate earnings or to benefit the balance of payments through the generation of income payments. The more mature affiliates provide for their expansion needs with reinvested earnings and are the primary source of income flows.

The survey generally supports the validity of the estimates regularly made by OBE for inclusion in the balance of payments accounts. The data used for the balance of payments statistics are based on a sample of about 1,000 companies reporting quarterly on their transactions with foreign affiliates, out of a total of about 3,400 companies having such foreign investments. The sample data on combined income (including royalties and fees) and on earnings are blown up to "universe" totals. The 1966 income receipts figures estimated this way for use in the balance of payments accounts were found to be less than 5 percent larger than the receipts figures obtained in the comprehensive survey. Excluding royalties and fees, the overestimate was a mere 3 percent. A greater discrepancy was found between the OBE capital flow estimates for 1966 and the figures obtained in the survey, with the former some 14 percent below the survey findings. This underestimate is mainly due to the fact that the capital flows of the sample are used in the balance of payments accounts as reported, with no attempt made so far to blow them up to a universe total. A matched group of reporters produces much closer correspondence between the survey findings and the results from the regular sample.

Income and capital flows

OBE's first complete investment survey after World War II was for the year 1950. Between then and 1966, net annual capital outflows of direct investors rose about $3.65 billion and their combined income (interest, dividends, branch profits, fees, royalties, and rentals) rose about $3.5 billion (table 1). As a result, the positive net balance of payments effect from these direct investment transactions was reduced from $904 million in 1950 to $770 million in 1966.

The adverse shift in the difference between direct investment capital flows and income was especially sharp in manufacturing. Capital outflows to manufacturing affiliates rose from $190 million in 1950 to $1,965 million in 1966 while return flows of combined income increased from about $450 million to $1,600 million.

The net flow from the developed countries as a group (Europe, Canada, Japan, South Africa, Australia, and New Zealand) deteriorated by $1.4 billion in the 16-year period, with Europe accounting for about two-thirds of the shift (table 1). Most of the shift occurred after 1958, as multinational firms made a major effort to increase production facilities in developed countries. The creation and the subsequent rapid economic growth of the European Common Market gave major stimulus to companies to establish new facilities there or to enlarge existing positions, and, as discussed below, new affiliates tend to show low ratios of earnings to capital flows.

The net flow from the less developed countries, on the other hand, improved by $1.2 billion, from $0.8 billion in 1950 to $2.0 billion in 1966. This was largely attributable to growth in the earnings of U.S. oil companies' branches in oil-

Table 2.—Net Earnings and Net Capital Flows in 1966, by Year of Establishment or Acquisition of Foreign Affiliate

[Millions of dollars]

Area and Country	Total	Year of establishment or acquisition: 1957 and prior years	1958	1959	1960	1961	1962	1963	1964	1965	1966
Net earnings for 1966:											
All countries, total	5,614	4,891	160	192	180	91	65	33	16	−18	14
Developed countries	2,580	2,254	83	89	111	48	19	27	−22	−8	−5
Canada	1,224	1,066	14	10	24	25	9	18	13	20	3
Europe	1,045	830	66	73	60	16	−8	12	−30	−28	−8
Common Market	362	372	20	22	20	−7	−24	−4	−24	−16	−6
Other Europe	683	458	46	51	32	23	16	23	−12	−12	−3
Republic of South Africa	111	89	1	3	13	1	1	2	(**)	(**)	1
Japan	89	72	(**)	1	4	6	2	−5	1	−1	−1
Australia	115	102	2	2	0	(**)	5	−3	−1	(**)	(**)
New Zealand	16	12	(**)	(**)	1	(**)	1	−2	1	1	(**)
Less developed countries	3,035	2,637	77	102	69	43	45	5	37	−11	21
Latin American Republics	1,193	1,037	34	28	36	20	10	−10	34	6	3
Other Western Hemisphere	280	101	1	6	10	4	2	5	6	(**)	1
Other Africa	272	266	8	15	7	−5	2	−13	−2	1	1
Middle East	941	907	6	28	3	1	−5	10	−10	−15	6
Other Far East	180	123	10	2	5	12	24	-------	3	3	4
International	233	183	16	26	12	2	13	4	8	−5	0
Net capital flows for 1966 (outflows (−)):											
All countries, total	−4,267	−1,371	−95	−107	−118	−134	−176	−270	−335	−640	−1,059
Developed countries	−3,577	−1,382	−61	−66	−77	−102	−155	−199	−267	−469	−780
Canada	−1,330	−904	−10	−8	−13	−11	−89	−54	−140	−148	−97
Europe	−1,970	−537	−41	−55	−65	−76	−110	−104	−105	−261	−606
Common Market	−1,220	−342	−32	−40	−23	−63	−84	−40	−62	−84	−454
Other Europe	−741	−195	−10	−16	−42	−12	−35	−63	−42	−176	−150
Republic of South Africa	−28	−15	−1	(**)	3	(**)	−2	−1	−3	(**)	−8
Japan	−54	−24	(**)	(**)	(**)	−5	(**)	−11	−3	(**)	−11
Australia	−175	9	−8	−3	−2	−20	5	−28	−8	−60	−58
New Zealand	−14	−11	(**)	(**)	(**)	(**)	−1	−1	(**)	−1	(**)
Less developed countries	−691	13	−35	−40	−40	−13	−22	−71	−69	−134	−279
Latin American Republics	−270	40	−24	−44	−2	−2	−33	−21	−38	−46	−134
Other Western Hemisphere	−149	−66	−17	(**)	−8	1	(**)	−6	−14	−4	−45
Other Africa	−80	36	−4	(**)	−22	−12	−2	−31	−2	−22	−23
Middle East	−68	−57	(**)	−6	−1	(**)	6	2	−6	−2	−2
Other Far East	−58	27	−3	−2	-------	1	−5	−11	−7	−26	−31
International	−60	−8	13	12	−7	−1	12	−4	1	−34	−44

**Less than $500,000.

NOTE.—Details may not add to totals because of rounding.

Source: U.S. Department of Commerce, Office of Business Economics.

exporting countries. A favorable balance of $1.7 billion was achieved in 1966 in transactions with major oil-producing countries in the Middle East, Libya, Venezuela and Indonesia, while other less developed countries combined accounted for only $0.3 billion. Part of the favorable shift in the oil-producing countries may reflect a tendency for affiliates there to be relatively mature and thus have high ratios of earnings to capital flows. But other factors were probably more important. During the period 1950–66, governments in the oil countries stimulated price increases for oil produced in these countries. This worked to increase taxable income, tax collections of the governments, and after-tax profits of the producers.

Influence of age of affiliates

Older enterprises differ from newly acquired or established enterprises in that the older ones tend to have established markets, their heavy starting-out expenditures have long since been met, and a significant amount of their plant facilities has been depreciated. Older enterprises thus tend to have significantly larger amounts of earnings available for payment to the owners or for reinvestment in plant or other assets than do new enterprises, their need for external financing is smaller, and their parents are less frequently called upon to provide funds.

The survey found that about 87 percent of 1966 direct-investment earnings (about $4.9 billion out of a total $5.6 billion) was earned by affiliates established by their U.S. owners or acquired by them prior to 1958 (table 2). Affiliates established or acquired in 1958 through 1960 accounted for 10 percent of 1966 earnings and those dating from 1961 or later accounted for only 3 percent. In the European Common Market, affiliates established or acquired in 1961 or later showed aggregate net losses of $80 million in 1966 while affiliates established or acquired in 1960 or earlier had aggregate earnings of $440 million.

It was also true with respect to dividends, interest, and branch profits paid to U.S. parents that about 90 percent of the 1966 total came from affiliates predating 1958 and 3 percent from affiliates established or acquired in the 1961–66 period. The similarity to the pattern in earnings suggests that the affiliates' payout ratios do not vary much by age of affiliate.

The total net capital outflow to affiliates was $4.3 billion in 1966, of which only 32 percent ($1.4 billion) was invested in firms established or acquired prior to 1958, while 60 percent ($2.6 billion) was invested in affiliates dating from 1961 through 1966.

Extent of U.S. ownership

Table 3 relates earnings and balance of payments transactions to the percentage of U.S. ownership. About 70 percent of the foreign organizations reported in the survey were essentially wholly-owned (95–100 percent), including foreign branches of U.S. corporations; 18 percent were majority-owned (50–94 percent) and 12 percent were minority-owned.

Wholly-owned enterprises accounted for more than 80 percent of net earnings, but for only 65 percent of net capital outflows. The comparable figures for wholly-owned manufacturing affiliates were 78 percent of net earnings and 58 percent of net capital flows; for petroleum affiliates, the figures were 88 percent and 69 percent, respectively. Thus, the ratio of earnings to capital flows was more favorable for wholly-owned affiliates than for affiliates in which U.S. ownership was smaller. This relation, however, could be the reflection of a tendency for wholly-owned enterprises to be older than affiliates in which U.S. ownership is smaller. If this is so, the large earnings may reflect maturity rather than ownership.

Coverage and methodology

Reporting on direct investments is mandatory under the provisions of Section 8 of the Bretton Woods Agreements Act. The Instructions and Regulations for the OBE survey were published in the *Federal Register* in August 1967, and notice of the reporting requirements was widely publicized. Forms and instructions were mailed directly to all investors listed in OBE's records and to those others requesting forms. Most reports were returned by the summer of 1968.

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Table 3.—Selected Data on United States Direct Investments, 1966, by Major Industry and Extent of U.S. Ownership

[Millions of dollars]

Item and percent of U.S. ownership	Total	Agriculture	Mining and smelting	Petroleum	Manufacturing	Public utilities	Trade	Finance and insurance	Other industries
Net capital outflows (+), total	4,287	27	321	878	1,906	81	329	440	152
95–100	2,716	23	244	500	1,139	47	248	220	85
50–94	716	1	37	214	920	7	51	53	32
25–49	306	1	26	37	191	5	19	18	11
10–24	71	(**)	4	—3	35	4	2	13	19
1–9 [1]	468	2	10	31	281	33	11	95	5
Net earnings, total	5,614	39	634	1,888	1,914	591	495	257	205
95–100	4,684	34	436	1,072	1,489	120	412	220	186
50–94	735	4	110	171	200	43	65	13	25
25–49	188	1	63	29	70	3	0	10	—2
10–24	92	(**)	19	0	42	0	10	10	—4
1–9 [1]	15	(**)	1	8	6	(**)	1	(**)	(**)
Interest, dividends and branch earnings, total	3,898	34	510	1,760	993	71	236	118	105
95–100	3,284	31	385	1,000	704	35	180	160	97
50–94	430	1	40	114	141	28	40	17	14
25–49	110	(**)	42	12	34	3	1	3	—4
10–24	82	(**)	11	7	21	1	8	6	—2
1–9 [1]	84	1	7	27	34	6	1	0	1
Reinvestment of earnings, total	1,790	6	125	162	914	134	259	90	100
95–100	1,320	3	57	81	639	98	232	70	80
50–94	321	2	40	54	157	90	20	7	10
25–49	105	1	21	22	46	2	5	7	2
10–24	30	(**)	7	4	19	4	2	5	—2
1–9 [1]	4	(**)	(**)	(**)	3	(**)	(**)	(**)	(**)

** Less than $500,000.

1. This represents partial ownership of affiliated and non-affiliated U.S. owners in foreign organizations in which another U.S. owner owns 25 percent or more of the voting stock.

NOTE.—Details may not add to totals because of rounding.

Source: U.S. Department of Commerce, Office of Business Economics.

Direct Investments

(*Continued from page 15*)

The coverage is believed to be virtually complete for major U.S. investors. Details of methodology, regulations and instructions, definitions, and copies of the reporting forms can be found in the *Direct Investments Abroad* volume.

"Direct foreign investment" is defined to include all foreign business organizations in which a U.S. person, organization, or affiliated group owns an interest of 10 percent or more. In addition, a foreign business organization in which 50 percent or more of voting stock is owned by U.S. residents is counted as a direct foreign investment even if no single U.S. group owns as much as 10 percent. It should be noted that some of the U.S. reporters who own direct investments abroad are themselves owned by foreigners, and direct investments of such U.S. reporters are included in this survey. Not covered are U.S. holdings of the stocks or long-term debt of foreign organizations not meeting one of these criteria; such holdings are considered portfolio, not direct, investments.

"Direct foreign investment" also includes all equity in the stock and surplus, and ownership of the long-term debt, of the foreign organization belonging to U.S. persons other than the U.S. parent of the foreign organization. However, U.S. banking and nonparent commercial claims on the foreign organization, or loans by U.S. Government agencies, are not included; they are shown elsewhere in the statements of the U.S. balance of payments and international investment position. Thus, accounts between the home offices and foreign branches of U.S. banks which are reportable on Treasury Department Foreign Exchange Forms B1 and B2 are excluded. The vast majority of such accounts represent balances held by the foreign branches with their U.S. home offices.

Structures and Equipment

(*Continued from page 22*)

is assumed to be a good indicator of the use of the product. For example, typewriters purchased on capital account were distributed to using industries on the basis of industry employment of typists. In most cases, all 76 user industries identified in the capital flow table were included in the allocation.

Evaluation

The estimates of equipment flows shown in table 1 fall short of the quality of the estimates of flows on current account in the input-output table for 1963. This is because there is much less hard statistical information available for estimating capital flows than for estimating current account flows.

Table 2 shows that, in dollar terms, well over half of the flow of equipment ($19.4 billion out of $33.6 billion) was allocated to using industries according to indirect estimating methods of one sort or another.

Information similar to that in table 2 has not been compiled for the current account flows in the 1963 input-output table. However, much more information on actual purchases was available for estimating the current account flows so that indirect methods were used much less. This is especially true for manufacturing industries, for which the Census of Manufactures supplied detailed information for more than half of the total consumption of materials by manufacturing plants. In addition, the regulatory commissions and various private surveys provided much information on current account flows for nonmanufacturing industries. Firm statistical data on purchases, and in some instances sales, underlie about one-half of the total dollar amount of flows in the current account table. In addition, information of the sort listed in categories 2 and 3 in table 2, which can also yield quite good estimates, is used substantially in the current account table.

Another factor to be considered in evaluating the quality of the equipment flows is that indirect estimating methods are in general more reliable for estimating current consumption than capital purchases. The consumption of many goods in current production can be closely approximated by such variables as output or employment, for which we have good data. This is not the case for purchases of new equipment. One can theorize about factors which affect new capital purchases, such as industry profits, excess capacity, age of stock, expected demand, and so on. However, we do not have an adequate statistical or theoretical basis for setting up equations incorporating such variables to estimate an industry's demand for specific types of fixed capital. Instead, the basis for the estimates was usually data on output, employment, or, in some instances, capital stocks.[9]

Table 2 does not provide a very useful basis for evaluating the estimates of new structures. Although three-fourths of the total dollar amount of construction is in the combined categories 1 and 2, the quality of the construction estimates is probably impaired because to a considerable extent they are based on secondary sources of information rather than on direct surveys of work done.

It is clear that significant additions to the Federal statistical program are required before fully adequate capital flow tables can be constructed. As a result of the experience gained in constructing the table for 1963, OBE is better able to assess the need for additional statistics on business purchases, sales, and rentals of new fixed capital for estimating inter-industry flows, and to formulate specific recommendations for such additions. The type of analysis summarized in table 2 extended to specific capital items and industries can provide guidelines for the needed improvements by showing the products and industries for which new or expanded data collection surveys are most needed.

9. Information concerning the basis for distributing each product to the using industries will be available shortly.

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